Prepared Remarks of Stephen Karangizi
Deputy Secretary General of the Community of Eastern and Southern Africa (COMESA) before the Trade Subcommittee of the House Ways and Means Committee Hearings on the Operation, Impact, and Future of the U.S. Preference Programs

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SETTING THE STAGE

Introduction

Chairman Levin, Ranking member Brady and distinguished members of the Subcommittee on Trade: on behalf of COMESA, I greatly appreciate the invitation by the Trade Subcommittee of the House Ways and Means Committee to participate in hearings to assess the performance of US preference programs and potential opportunities for improvements. Since 14 of its 19 members states are currently full beneficiaries of the African Growth and Opportunity Act (AGOA), I will focus my comments on this preference program.

It is fitting to be here today to discuss AGOA's future. We remember that this is the Committee where proposals for AGOA were conceived. Without the dedicated work of long-serving House members such as Chairmen Charles Rangel and Sandy Levin, Jim McDermott and Ed Royce, we would never have had AGOA.

COMESA Background:

COMESA is a 19 member-state Regional Economic Community (REC) having attained the status of a Free Trade Area (FTA) in 2000; and launched a Customs Union in June 2009.

To achieve its objective of deepening integration, COMESA has established a number of trade and investment supporting specialised institutions such as the COMESA Court of Justice, the COMESA Reinsurance Company (ZEP-RE), the Clearing House for Eastern and Southern African Trade and Development Bank (PTA Bank), the Leather and Leather Products Institute (LLPI), the COMESA Regional Investment Agency (RIA), and the African Trade Insurance Agency (ATI), among others.

To enable the region to attract greater and sustainable levels of investment, a COMESA Common Investment Area (CCIA) was established. Its goal was the creation of an internationally competitive investment area, which allows for free movement of capital, labor, goods and services across the borders of member-states.

However, to meet the aspirations of the founding fathers of the African Union (AU) as expressed at the dawn of independence in the 1960's, RECs must come together to form extra-regional groupings. In addition, since many eastern and southern African countries belong to more than one regional economic community, amalgamation is required to overcome overlapping memberships.

On 22nd October 2008 the first ever COMESA, Southern Africa Development Community (SADC) and East African Community (EAC) Tripartite Heads of State Summit was held in Kampala, Uganda. An agreement was reached to merge and form a single regional economic community. A Tripartite Task Force was mandated to draw a regional Road Map which will include the formation of a single Free Trade Area, Customs Union and then eventually merge into a single economic community. This will bring 26 countries with a population of over 530 million people and with a GDP of over US$ 700 billion. This will form a wide area for the unfettered flow of goods across borders thus making it a more attractive area for increased investment and marketing.

US-COMESA Cooperation:

COMESA welcomes and appreciates the technical assistance which has been provided by the United States of America towards COMESA's integration efforts, including assistance on: trade and World Trade Organization (WTO) matters; capacity building for institutional strengthening of key management systems within the COMESA Secretariat; identification of barriers to investment and development of regional solutions; private sector capacity building; telecommunications harmonization; and the study of rules of origin as related to the WTO, World Customs Organization, SADC, and other organizations.

Furthermore, the establishment of the African Cotton and Textiles Industries Federation (ACTIF) as a regional industry association (which was made possible with the support of the US Agency for International Development (USAID) and which includes countries such as South Africa and Tanzania which are not COMESA member-states) has made it easier for COMESA to interact with industry players in the cotton and textile sectors across the region, as indeed in other sectors, in order to work together in a coherent and cohesive manner to achieve maximum results. Other institutions which were established with USAID support include: the East and Southern Africa Dairy Association, (ESADA), the East African Grain Council (GC), and the East and Central African Coffee Association (ECAFA). Within this holistic framework, the industries and private sector associations, trade support institutions (TSIs), the COMESA Business Council (CBC) and the Federation of COMESA Women in Business, (FEMCOM - a COMESA Institution for Women in Business), in the COMESA region will benefit from a Pan-African Program (involving the three RECs: COMESA, Economic Community of Central African States -ECCAS, and the Economic Community of Western Africa States -ECOWAS) for building African Capacity for Trade (PACT) funded by the Canadian International Development Agency (CIDA) and which will be jointly implemented with the US International Trade Commission (USITC).

The United States signed a Trade and Investment Framework Agreement (TIFA) with COMESA in 2001 to promote regional integration. The most recent US-COMESA TIFA Council meeting was held two weeks ago and focused on US-COMESA trade and investment, AGOA implementation, trade capacity building, investment, trade-related infrastructure, and the WTO's Doha Round negotiations. At the August AGOA Forum, US Trade Representative (USTR) Ambassador Kirk mentioned the importance of addressing obstacles in the SSA region to US exports as a prerequisite for maintaining Congressional support for AGOA. TIFA has and can continue to provide a forum for not only addressing obstacles to US exports to the Sub-Saharan Africa (SSA) region but also for addressing those impeding SSA exports to the United States.

Cotton and Textiles:

The textiles and apparel exports into US markets from COMESA member-states, which increased tremendously in the first half of the decade 2000 - 2004, have been falling mainly as a result of the end of multi-fiber agreement (MFA) in 2005. Apart from Madagascar and Ethiopia, whose exports increased by 3% and 73% respectively between 2005 and 2007, most other exporting member-states saw declines in their textile exports. This trend is forecasted to continue as a result of the expiry of the safeguard quotas under the WTO which expired last year 2008.

It should be noted, that all top five exporters of apparel products to the US under AGOA/GSP (Generalized System of Preferences) except Lesotho are COMESA member-states. These are Kenya, Mauritius, Madagascar and Swaziland. All these countries are eligible to source inputs under the third-country provision; and with the declining trend of the textiles and apparel exports, the investments into the textiles and apparel inputs which are coming into the region will lose out.

There is diversification to non-apparel exports under AGOA. This, again, could be as a result of the challenges faced by the textiles and apparel exporting companies facing increased competition as a result of apparel exports from China, Bangladesh and other suppliers to the US market being liberalized since the expiration of both the MFA and the special safeguards on Chinese exports to the US. This results in crowding out the investments in the textiles and apparel inputs.

Demand for the textiles and apparel inputs in the COMESA region:

Between 2000 and 2008, the total COMESA imports of inputs into the textiles and apparel sectors excluding zippers stood at US$1,094.35 million while total COMESA exports of inputs into the textiles and apparel stood at US$125 million. This signifies a large demand in the region, although the trend has been on the decline due to the expiry of the multi-fiber agreement. These figures underscore that the COMESA region does not have the capacity to supply the inputs for the garments and textiles sector; hence, the need to attract investment and improve the cost of doing business.

Mandated by the directives of the Heads of States and Council of Ministers to develop a regional industrial strategy and in order to respond to the challenges and to improve the competitiveness of the cotton, textiles and apparel sector, COMESA, with the assistance of the International Trade Centre (ITC) and working in partnership with the African Cotton and Textile Industries Federation (ACTIF), developed a regional industry strategy for cotton, textiles and clothing (cotton-to-clothing) focusing on promoting regional industry linkages, value addition and specialization. The expectations in this regard are very high as this is a directive of the COMESA Heads of State and Government

The strategy has highlighted sources of inputs into the cotton-to-clothing sector as a main area of focus for the development of the sector. It has also put in place recommendations as how to overcome the challenges of sourcing inputs in order to make the sector more competitive.

Current Challenges:

The decision of the Subcommittee to hold hearings at this time is particularly timely since it comes within months of the Eighth (8th) AGOA Forum and the Seventh (7th) Corporate Council on Africa (CCA) Business Summit as well as the Fourth (4th) US-COMESA Trade and Investment Framework Agreements (TIFA) meeting. Each of the meetings demonstrated the success of AGOA in evolving US-Sub-Saharan Africa (SSA) relations into a true *partnership*. Each side felt it appropriate to discuss strengths and weaknesses of the relationship. My statement today will reflect these points in an effort to improve AGOA. We have included as an attachment to this presentation, specific measures identified by Kenyan Trade Minister Amos Kimunya in his concluding remarks made on behalf of SSA participants at the 8th AGOA Forum.

Our belief is that AGOA can still be improved. Instead of anecdotal successes, it can become a true transformational program. Reductions of trade barriers under AGOA alone cannot transform economies especially when the preference-giving country, the United States, has a trade regime with low most-favored nation (MFN) duties averaging about 2-3 percent. However, it could become transformational if AGOA represented an agglomeration of trade, development and investment policies.

POTENTIAL OPPORTUNITIES FOR TRADE POLICY IMPROVEMENTS

One overriding proposal is that AGOA be made permanent and its specific provisions including the right to incorporate third-country fabrics in garment exports are made permanent. Other more specific trade policy proposals can be divided as follows:

Agriculture:

1. Elimination of Tariff-Reduction Quotas (TRQs) on all agricultural products, with the exception of sugar, would greatly help to generate agricultural trade. For a number of countries, the trade generated could exceed their current trade levels. Examples of such products are ground nuts or peanuts (once the market stabilizes), tobacco and sweetened cocoa.

2. A major impediment to new exports of agricultural products from the region is Sanitary and Phyto-Sanitary (SPS) measures, particularly pest risk assessments. They are expensive, require lengthy time periods to conduct and often are unsuccessful. We understand that every country has the right to protect its citizens. Yet, we do not understand why European Union (EU) standards are more amenable to African exports than the US, especially since the US has many complaints against EU standards for being protectionist.

   We thus suggest that AGOA includes provisions focusing on those barriers judged to be the most trade restrictive. Although one cannot be sure of success, one could agree to focus official and private sector resources, including academic and research institutes, to carry out pest risk assessments. Only then can one increase products exported from SSA countries which do not threaten the health of animals and plants grown in the United States.

   The 8th AGOA forum urged the US to assist in the enhancement and strengthening of institutional capacity to enable the sub-Saharan countries to meet US SPS measures through training of national competencies in sub-Saharan Africa. In addition, a system of mutual recognition of standards should be established. The US should undertake the necessary measures to fast track the pest risk analysis process for approval of SSA exports to the US.

3. There is a need to provide substantial resources for capacity-building in agriculture, particularly in the areas of research and training, agricultural infrastructure, productivity, marketing and technology transfer.

Infrastructure:

Greater attention should be given to supporting practical outcomes of the current WTO Aid-for-Trade exercise in Geneva. There has been ample attention paid to definition and classification but very little to practical outcomes. An important exception was an Aid-for-Trade conference on the creation of a North-South development corridor encompassing the Tripartite Group of regional economic communities (RECs): COMESA, the East African Community (EAC) and the Southern Africa Development Community (SADC). We need more attention to practical results.

The COMESA-EAC-SADC Tripartite arrangement has also identified and is working on other important transport and development corridors for targeted Aid-for-Trade support. These include: the central corridor from Dar Es Salaam (Tanzania) to the Eastern DRC (Democratic Republic of Congo); the northern corridor from Mombasa, Kenya to the Eastern DRC and to Southern Sudan; the new proposed corridor from a new Lamu port in Kenya through Ethiopia to Southern Sudan; and finally, the corridor from Djibouti to Ethiopia, among others.

Eligibility Requirements:

COMESA members understand the objectives of the US in establishing conditions for eligibility in AGOA. However, it is not sure that failure to designate or action to remove countries for single-actor or minority actors' actions may be counterproductive to the attainment of these objectives. For example, failure to designate four potential COMESA members has done little to promote the goals of the program but may have lost opportunities to create interests favorable to reform.

There are a number of ideas for improving country eligibility requirements. I am not in a position to state an official COMESA view but perhaps they should be considered by the subcommittee as it analyzes potential modifications of AGOA.

1. The US should take into account the results of African peer reviews.

2. Provide US decision-makers more flexibility by allowing non-trade sanctions for violations of eligibility conditions. For example, in cases of coups, trade sanctions may have little effect while non-trade sanctions targeted at coup leaders may be more effective.

3. Designate regional groupings when each of its members is eligible and maintain regional designation unless one country falls out of conformity with the requirements. In that case, the groupings themselves will put pressure on individual countries to adhere to conditions since it would mean that group designation would be withdrawn.

Trade Policy:

1. AGOA does not treat least-developed countries (LDCs) and non-LDCs of the same REC differently since it allows for the designation of all SSA countries. Other donors have not followed this policy. The EU denies access to non-LDCs under its unilateral Everything But Arms (EBA) preference programs. China and India also deny access for SSA non-LDCs under their preference schemes being implemented under the Duty-Free, Quota Free (DFQF) initiative.

   AGOA has been able to designate all countries without a WTO problem through gaining a World Trade Organization (WTO) waiver. Consideration could be given to generalizing this waiver to all such donor preference schemes which would recognize the overriding need for the African region to integrate its economies.

2. COMESA has joined its members in urging a prompt, balanced and ambitious outcome to the Doha Round. It notes that the region will benefit from significant reductions of agricultural subsidies and enhanced Aid-for-Trade and business facilitation assistance.

Textiles:

SSA textiles can only hope to compete against Far East manufacturers if there is a reduction in the external costs of energy, water and transportation. As we stated above, this issue is outside of the jurisdiction of the committee but is mentioned at the end of this submission.

1. AGOA has a unique origin rule for garments which has allowed it to maintain a small but significant share of the market. However, there are proposals under discussion in Congress which would extend this benefit to competitive Far East LDCs, specifically Bangladesh.

   As signaled above, the expiration of the MFA has advantaged Bangladesh. Bangladesh is currently the second largest exporter to the United States and has seen its imports increase while SSA imports have declined. Thus, we argue that duty-free treatment cannot be accorded to Bangladesh apparel exports if one hopes to maintain the most significant success story of AGOA, the growth of the garment industry in Sub-Saharan Africa.

2. One could assist Bangladesh as well as the SSA region, if one considered a proposal for an Earned Import Allowance Program (EIAP) which has been used in some form in the Dominican Republic/ Central America Free Trade Agreement (DR/CAFTA) and Haiti. Under this proposal, importers increasing their purchases for the SSA region would be given the right to import duty-free, the same amount of apparel from Bangladesh and Cambodia. In order to encourage vertical integration, the credit could be multiplied by two or three times for garments imported from Africa that are made from African-origin fabric.

3. The US should extend the AGOA Third-Country Fabric Provision beyond 2012 and include other eligible AGOA beneficiary countries that currently do not benefit from this provision. However, care should be taken not to disadvantage lesser developed, beneficiary SSA countries in extending this provision.

Potential Opportunities in the Non-Trade Area to Improve AGOA:

There have been a number of successes which can be ascribed to AGOA. There have been significant increases in exports of garments, flowers, baby vegetables and shrubbery from one or more COMESA members since AGOA was implemented. AGOA has also encouraged a more outward looking view toward development with trade being mainstreamed into a number of national and regional development plans.

We realize that development and investment issues are often outside the jurisdiction of the subcommittee. We thus list these issues here for the record as they were highlighted at the 8th AGOA Forum as indicated in the attachment. Whether they can be dealt with in an omnibus approach or separately but in the same time frame, is a decision for the US Congress.

Sub-Saharan Africa (SSA) very much appreciates the focus of the United States government on Food Security and Climate Change. SSA would hope, however, the US government provides equal attention to economic growth which would include deepening and expanding AGOA as well as development and investment measures. AGOA could meet expectations of being a transformational program if attention was paid to the following:

1. Incentives for US investment in the region. Targeted-tax incentives for US companies investing as a means of attracting Foreign Direct Investment (FDI) could be put in place;
2. Flexibility of and providing a regional mandate for the Millennium Challenge Corporation (MCC), the Overseas Private Investment Corporation (OPIC) and the US Export-Import Bank (ExIm);
3. Assistance for infrastructure projects that either decrease the cost of production or link domestic and global markets;
4. Support for industries/sectors where the region has competitive advantages; and
5. Providing an option for trade and investment policies to be connected and linked together. Lack of investment flows along the cotton, textiles and apparel value chain contributes to the non-performance of the entire sector. Much as there has been a focus to promote preferential AGOA trade there have been few incentives from the US and African governments to attract investments. This is specifically problematic in the production of the inputs, and, as such, the sector relies heavily on the third country fabric provision for fabrics and other inputs.

Submitted: Stephen Karangizi, Assistant Secretary General, COMESA, November 2009